

To: President-elect Obama
From: Henry J. Aaron, The Brookings Institution
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Re: Reform Health Care

The Situation

The huge problems of the U.S. health care system are widely recognized: excessive spending, spotty quality, and poor access to services.

These problems are not new, nor is recognition of them. Even so, serious obstacles have frustrated past reform efforts and will confront yours: lack of ideological consensus; the size, complexity, and political clout of the health care industry; political distrust, particularly among people who are currently well insured; and geographic diversity in spending, coverage, and delivery systems. Furthermore, health reform means income redistribution—among payers and across service providers. Potential losers will fight hard, and they will have ample resources.

While these obstacles are formidable, the current financial crisis offers a unique impetus for health care reform. In comparison to the many hundreds of billions being spent to spur economic recovery, the near-term costs of achieving universal coverage—roughly \$100 billion a year—now look less daunting. And legislation to reform health care provides an occasion for addressing devastating projected long-term deficits, attributable entirely to rising health care costs.

Your Stance

During the presidential campaign, you presented a detailed program for reform of the financing and delivery of U.S. health care. That program included:

- health IT
- improved management of chronic and high-cost diseases
- comparative effectiveness research
- malpractice reform
- termination of excess payments for Medicare Advantage
- reforms to promote access to drugs at fair prices
- reinsurance for high-cost episodes of care
- a health insurance clearinghouse to improve access to individual coverage
- a required contribution toward the cost of employee health insurance by most companies
- financial assistance for people who cannot afford health insurance and to help small businesses meet their obligations to employees
- support for state-initiated reforms

- mandatory insurance coverage for children
- expansion of Medicaid and SCHIP

All of these ideas have merit; the crucial strategic question is whether to proceed step-by-step, or to move quickly with a large health care reform package.

Recommendations

Given the stakes, it is imperative that your health care reform effort succeed. The way the debate on health reform is framed is of utmost importance in creating public and political support. Repeating past failures of both Republican and Democratic presidents (including by Democratic presidents with congressional majorities as large as those the Democrats currently enjoy) would be devastating. Given the ongoing fiscal stimulus debate, SCHIP reauthorization, and the difficult environment for comprehensive reform, I recommend a step-by-step process to health care legislation.

That approach is not easy, nor will it be met with praise on Capitol Hill. For decades, many Democrats have regarded the achievement of universal health insurance coverage as the key step to completing the edifice of social insurance that began with enactment of the Social Security Act of 1935. The Clinton health reform effort was the last such attempt. Many members of Congress believe the edifice can now be finished.

Some would argue that focusing debate around a single piece of legislation could encompass most of the elements in your platform. Some leading members of Congress—most notably Senator Kennedy—favor this approach. It may facilitate the formation of coalitions supporting different components of the program and generate political momentum. For budget scoring, savings from particular actions (*if recognized by CBO*) can offset costs of other provisions, thereby reducing difficulties created by pay-go rules. One big bill may curb the effectiveness of efforts by interest groups violently opposed to particular provisions.

Disadvantages of an omnibus bill are that it will be staggeringly complex and very long. HHS Secretary-designate Tom Daschle has written that “. . . the challenge of passing a bill is directly proportional to its size.” The longer the bill, the greater the number and significance of the economic domains it will affect and the larger the number of opponents it will engender, just as the length of the 1,342-page Clinton bill became a deterrent to its passage. Those opposed to individual elements can coalesce into a wall of nay-sayers. The comprehensiveness of the bill will leave it vulnerable to allegations that it amounts to a “government takeover” of health care and expands bureaucracy. Moving a bill in Congress that contains elements overseen by several separate committees requires special arrangements that may prove problematic. Should the bill fail, its demise would blight your Administration.

A Step-by Step Approach

Fiscal Stimulus – The likelihood of quick passage of a fiscal stimulus package presents an opportunity—and a temptation—to attach health reform initiatives to a “bill that cannot fail.” An increase in the federal Medicaid match can and should provide billions of badly needed fiscal relief to the states and forestall state budget cuts that will intensify the economic slow-down. The temptation to add other health reform measures to the recovery bill should be resisted. Almost without exception, they are complex and politically divisive. Including them could slow passage of a recovery bill that should have been passed several weeks ago. Furthermore, hasty drafting risks design errors that will be hard to reverse.

SCHIP reauthorization – SCHIP expires March 31. Re-authorization is certain; its form is not. Congress is set to pass legislation similar to bills approved last year, which President Bush twice vetoed. Congress may add a few new elements, such as benefits for legal immigrant children and pregnant women and financial incentives to cover children eligible for Medicaid. This bill will pass quickly. While a strong case could be made on the merits of adding other reform features, such as coverage of parents of eligible children, such

provisions could, provoke greater political resistance and can be addressed in legislation introduced later this year or next.

Additional Bills – Along with the positive steps achieved in the fiscal stimulus legislation and the SCHIP reauthorization, passage of other discrete elements of your program would constitute a watershed event in U.S. health care policy and create momentum for further advances For example:

- creation of a health insurance clearinghouse would reform the currently inefficient market for individual insurance, extend access to millions through the ability to buy into plans similar to the Federal Employees Health Benefits Program, and potentially enable workers to retain the same insurance plan if they change jobs
- support for an institute to conduct comparative effectiveness research—a necessary precondition to rational limits on the growth of health care spending—and to implement health information technology, which will make it much easier to manage resources more effectively and
- federal support of state reform efforts, can encourage states to extend coverage to millions more and to experiment with methods to improve quality and curb spending growth.

These reforms would not by themselves achieve universal coverage, end sub-standard care, or stop excessive growth of health care spending. But they would make material advances on all fronts and carry far less risk of political failure than the 'big bang' approach. They would immediately increase the number of insured Americans by about ten million and set the stage for covering millions more. And they would provide information that will eventually make cost control possible and sustainable.

In the longer run, predictable increases in health care spending mean that government will need substantially higher revenues even to sustain current commitments to Americans who are elderly, disabled, and poor. Still larger revenue increases will be needed to expand coverage, unless cost-cutting measures yield far greater savings than sober estimates now indicate. The introduction of the Medicare drug benefit, which increased the long-term fiscal gap by more than the entire projected deficit in Social Security, testifies to the risk of enacting short-term benefits without adequate attention to long-term fiscal consequences.

Strategies to boost revenues must be considered simultaneously with any responsible plan to extend coverage or reform the payment system. [Options for boosting revenues include:](#)

- an earmarked value-added tax
- increases in personal income tax rates (which should be linked to tax reforms that minimize inefficiencies and inequities)
- increased payroll taxes, and
- energy taxes.

Conclusion

The chances for reforming how we pay for and deliver health care are better than ever before. Even so, the obstacles to full, system-wide reform are formidable. Because complete success is improbable, primary focus should be on identifying those key changes that will initiate a sustainable process of reform. Starting this process is vital and should be celebrated as a success.